

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Looking Glass Regional Fire Authority	County Clinton
Audit Date December 31, 2004	Opinion Date May 16, 2005	Date Accountant Report Submitted To State: June 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State MI	ZIP 48823
Accountant Signature 			

Looking Glass Regional Fire Authority

Financial Report With Supplemental Information

December 31, 2004

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Looking Glass Regional Fire Authority

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To the Board of Directors
Looking Glass Regional Fire Authority
Eagle, Michigan

We have audited the accompanying basic financial statements of Looking Glass Regional Fire Authority (the Authority) as of December 31, 2004 and 2003, and for the years then ended as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Looking Glass Regional Fire Authority at December 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

May 16, 2005

Management's Discussion and Analysis

Looking Glass Regional Fire Authority

Management's Discussion and Analysis

Using This Annual Report

This annual report consists of the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. This section, the Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the purpose of the Authority. The Authority was formed in October 2001 to operate, maintain, administer, and manage a joint fire department for the benefit of constituent municipalities, both Watertown Charter Township and Eagle Township. The Authority's income primarily comes in as contributions and service contract payments from Watertown Charter Township (65%) and Eagle Township (35%). This financial report represents two years of reporting by the Authority. The Authority contracted with the City of Portland, the Dewitt Area Emergency Services Authority, and Grand Ledge Area Emergency Services Authority for fire services for the year ending December 31, 2003.

The following table shows the major components of net assets for December 31, 2004 and 2003:

Capital Assets	\$ 1,965,000	\$ 2,031,799
Other Assets	<u>106,620</u>	<u>342,195</u>
Total assets	2,071,620	2,373,994
Liabilities	47,619	228,407
Net Assets		
Invested in capital assets:		
Land	107,100	107,100
Equipment, net	<u>1,857,900</u>	<u>1,924,699</u>
Invested in capital assets	1,965,000	2,031,799
Restricted for equipment	-	39,639
Unrestricted		
Prepaid expenses	7,757	346
Available	<u>51,244</u>	<u>73,803</u>
Unrestricted	<u>59,001</u>	<u>74,149</u>
Total net assets	<u>\$ 2,024,001</u>	<u>\$ 2,145,587</u>

(Available unrestricted net assets would be divided 65/35 Watertown Township - \$33,309 and \$47,972/Eagle Township - \$17,935 and \$25,831, for 2004 and 2003 respectively)

Looking Glass Regional Fire Authority

Management's Discussion and Analysis (Continued)

Financial Overview (Continued)

The following table shows the major components of the (decrease) increase in net assets for 2004 and 2003:

Watertown Charter Township Contributions/Charges for Services	\$ 278,571	\$ 752,794
Eagle Township Contributions/Charges for Services	150,000	389,456
Interest	769	1,911
Contributions/Donations/Refunds	41,693	28,452
Return of excess contributions to Eagle Township	(23,731)	-
Return of excess contributions to Watertown Charter Township	(83,712)	-
Expenses	<u>(485,176)</u>	<u>(525,745)</u>
Change in net assets	<u><u>\$ (121,586)</u></u>	<u><u>\$ 646,868</u></u>

Contributions and charges for services from the townships decreased significantly due to no longer contracting services with other municipalities for the year ending December 31, 2004. Also, significant capital contributions were received for significant capital outlay and construction costs that occurred during the year ending December 31, 2003.

Capital Assets

Capital assets, consisting of land, building, equipment, and vehicles for a new station were added during 2004 and 2003 in the amounts of \$40,207 and \$1,819,498, respectively.

Contacting the Authority's Management

This financial report is intended to provide the participating townships with a general overview of the accountability for the money the Authority receives. If you have any questions about this report, the Authority may be contacted for additional information.

Basic Financial Statements

Looking Glass Regional Fire Authority

Statement of Net Assets

	December 31	
	2004	2003
Current Assets		
Cash and cash equivalents (Note 2)	\$ 89,722	\$ 286,664
Accounts receivable	9,141	55,185
Prepaid expenses	7,757	346
Total current assets	106,620	342,195
Capital Assets (Note 4)		
Capital assets not being depreciated	107,100	107,100
Other capital assets, net of depreciation	1,857,900	1,924,699
Total capital assets	1,965,000	2,031,799
Total assets	2,071,620	2,373,994
Liabilities		
Accounts payable	32,753	112,789
Retainage payable	-	101,049
Accrued wages and payroll tax payable	14,866	14,569
Total liabilities	47,619	228,407
Net Assets		
Invested in capital assets, net of related debt	1,965,000	2,031,799
Restricted for capital assets (Note 3)	-	39,639
Unrestricted	59,001	74,149
Total net assets	<u>\$ 2,024,001</u>	<u>\$ 2,145,587</u>

Looking Glass Regional Fire Authority

Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2004	2003
Operating Expenses		
Salaries and related expenses	\$ 227,969	\$ 94,133
Employee benefits/programs	64,672	16,809
Contracted services	-	141,909
Grant writing	-	5,000
Accounting fees	9,273	10,037
Advertising	-	2,255
Board expenses	491	428
Insurance	10,036	8,396
Supplies	4,154	116,700
Turnout gear	5,536	55,002
Training	8,389	8,506
Repairs and maintenance	19,020	20,919
Depreciation	107,006	22,886
Miscellaneous	28,630	22,765
Total operating expenses	485,176	525,745
Operating Revenues		
Operating contributions	421,500	331,100
Charges for services	-	141,909
Miscellaneous	1,018	782
Total operating revenues	422,518	473,791
Net Loss from Operations	(62,658)	(51,954)
Nonoperating Revenue (Expenses)		
Return of excess contributions to townships	(107,443)	-
Investment income	769	1,911
Total nonoperating revenue (expenses)	(106,674)	1,911
Capital Contributions	47,746	696,911
Change in Net Assets	(121,586)	646,868
Net Assets - Beginning of Year	2,145,587	1,498,719
Net Assets - End of Year	<u>\$ 2,024,001</u>	<u>\$ 2,145,587</u>

Looking Glass Regional Fire Authority

Statement of Cash Flows

	Year Ended December 31	
	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	\$ 47,062	\$ 177,906
Cash received from operating contributions	421,500	331,100
Cash payments to employees for services rendered	(227,672)	(94,133)
Cash payments to suppliers for goods and services	(237,648)	(334,270)
Net cash provided by operating activities	3,242	80,603
Cash Flows from Capital and Related Financing Activities		
Payments for the acquisition or construction of capital assets	(141,256)	(1,755,007)
Return of excess contributions to townships	(107,443)	-
Capital contributions from townships	47,746	696,911
Net cash used in capital and related financing activities	(200,953)	(1,058,096)
Cash Flows from Investing Activities		
Interest received on investments	769	1,911
Net Decrease in Cash and Cash Equivalents	(196,942)	(975,582)
Cash and Cash Equivalents - Beginning of year	286,664	1,262,246
Cash and Cash Equivalents - End of year	<u>\$ 89,722</u>	<u>\$ 286,664</u>
Reconciliation of Operating Loss to Cash Flows From Operating Activities		
Operating loss	\$ (62,658)	\$ (51,954)
Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities:		
Depreciation	107,006	22,886
Decrease in accounts receivable	46,044	35,215
(Increase) decrease in prepaid expenses	(7,411)	17,237
Increase (decrease) in accounts payable	(80,036)	43,341
Increase in accrued wages and payroll taxes payable	297	13,878
Net cash provided by operating activities	<u>\$ 3,242</u>	<u>\$ 80,603</u>

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies

Looking Glass Regional Fire Authority (the Authority) was established by the Township of Eagle and the Charter Township of Watertown. The Authority was incorporated in October 2001, under the provisions of Act 7, Public Acts of 1967, known as the Urban Cooperation Act of 1967. The Authority is governed by a board composed of the residents of each of the constituent Townships. The Authority was formed to operate, maintain, administer, and manage a joint fire department for the benefit of constituent municipalities.

The Authority contracted with the City of Portland, the Dewitt Area Emergency Services Authority, and Grand Ledge Area Emergency Services Authority for fire services for the year ended December 31, 2003.

The accounting policies of Looking Glass Regional Fire Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments*, issued in June 1999.

Basis of Accounting - The accounts of Looking Glass Regional Fire Authority are organized as an Enterprise Fund, which is used to account for its operations as a provider of fire services.

The accrual basis of accounting is used to account for the operations of this Enterprise Fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred, regardless of the timing of the related cash flows.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Accounts Receivable - The Authority's accounts receivable are comprised of amounts due from the participating townships stated at invoice amounts. The Authority has determined no allowance for uncollectible amounts is necessary.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 5 to 39 years.

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Deposits

The Authority's cash and cash equivalents consist of bank deposits. The deposits were reflected in the accounts of the bank of the Authority (without recognition of checks written but not yet cleared or of deposits-in-transit) at \$90,780 and \$284,564 on December 31, 2004 and 2003, respectively. Of these amounts, \$90,780 and \$200,000, respectively, was covered by federal depository insurance. The Authority believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Restricted-Net Assets

The Authority received \$1,170,000 prior to December 31, 2003, from Watertown Township to be used for the construction of the fire station, furnishings, and equipment. This amount was reflected as capital contributions for the year ended December 31, 2002, and the unspent contributions were reflected as net assets restricted for capital assets. At December 31, 2003, \$39,639 remained unspent and was reflected as net assets restricted for capital assets. During the year ending December 31, 2004, the unspent amount was returned to Watertown Township and is included in nonoperating expenses.

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 4 - Property, Plant, and Equipment

Cost of property, plant, and equipment and depreciable lives are summarized as follows:

	January 1, 2004	Additions	Retirements and Transfers	December 31, 2004	Depreciable Life-Years
Capital assets not being depreciated:					
Land	\$ 107,100	\$ -	\$ -	\$ 107,100	-
Capital assets being depreciated:					
Fire station	1,148,794	-	-	1,148,794	39
Vehicles	547,497	-	-	547,497	15
Communication equipment	26,165	-	-	26,165	10
Shop equipment	28,094	-	-	28,094	7-15
Office equipment	51,155	-	-	51,155	5-12
Fire fighting equipment	146,937	40,207	-	187,144	7-10
Total capital assets being depreciated	1,948,642	40,207	-	1,988,849	
Total capital assets	2,055,742	40,207	-	2,095,949	
Less accumulated depreciation	(23,943)	(107,006)	-	(130,949)	
Net carrying amount	\$ 2,031,799	\$ (66,799)	\$ -	\$ 1,965,000	

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 4 - Property, Plant, and Equipment (Continued)

	January 1, 2003	Additions	Retirements and Transfers	December 31, 2003	Depreciable Life-Years
Capital assets not being depreciated:					
Land	\$ 107,100	\$ -	\$ -	\$ 107,100	-
Construction-in-progress	63,576	-	(63,576)	-	-
Total capital assets not being depreciated	170,676	-	(63,576)	107,100	
Capital assets being depreciated:					
Fire station	-	1,085,218	63,576	1,148,794	39
Vehicles	-	547,497	-	547,497	15
Communication equipment	-	26,165	-	26,165	10
Shop equipment	1,920	26,174	-	28,094	7-15
Office equipment	1,350	49,805	-	51,155	5-12
Fire fighting equipment	25,740	121,197	-	146,937	7-10
Total capital assets being depreciated	29,010	1,856,056	63,576	1,948,642	
Total capital assets	199,686	1,856,056	-	2,055,742	
Less accumulated depreciation	(1,057)	(22,886)	-	(23,943)	
Net carrying amount	\$ 198,629	\$ 1,833,170	\$ -	\$ 2,031,799	

Depreciation expense was \$107,006 and \$22,886 for the years ended December 31, 2004 and 2003, respectively.

Note 5 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in the past three years.

Looking Glass Regional Fire Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 6 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - Effective January 1, 2004, the Authority participates in the Municipal Employees' Retirement System (MERS) of Michigan, an agent, multiple-employer defined benefit pension plan that covers all employees of the Authority. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by the Authority's Board of Directors and requires no contribution from the employees.

Annual Pension Costs - For the year ended 2004, the Authority's annual pension cost of \$12,455 for the plan was equal to the required and actual contribution. There is no formal actuarial valuation available at this time, however, the contribution rate of 7.54 percent of covered payroll was determined by MERS.

Information as of December 31 is as follows:

	<u>2004</u>
Annual pension costs (APC)	\$ 12,455
Percentage of APC contributed	100%
Net pension obligation	\$ -

May 16, 2005

Board Members
Looking Glass Regional Fire Authority
P.O. Box 64
Eagle, MI 48822

Dear Board Members:

We have recently completed our audit of the financial statements of Looking Glass Regional Fire Authority (Authority) for the year ended December 31, 2004. We would like to thank all of the Authority's staff and Patti Schafer of Countryside Accounting for their cooperation during the audit. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Bank Reconciliation

The Authority has a policy that the Treasurer review all bank reconciliations for completeness and accuracy and that he or she sign their initials on the bank statement after reviewing. There was no evidence of bank reconciliations being reviewed and approved by an individual independent of the preparation for the last quarter of 2004. The purpose of a reconciliation review is to ensure that reconciliations are performed timely and accurately. The reviewer should document approval of the reconciliations.

Checking Account

During our testing we noticed a large gap in the sequence of the check numbers used for the month of March. On March 27, 2004 check numbers 1750 and 2001 were used, however the sequence of checks from 1751 through 2000 were not used in March. Upon further investigation, it was noted that this series was used beginning on July 30, 2004. Checks should be used in sequence to assure that no checks have been stolen or misplaced. To monitor the sequence of checks, the reviewer of the monthly bank reconciliations should review the sequential order of the checks to assure that checks are being used in numerical order.

ACH Arrangements

Public Act 738 of 2002 allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

The Board should consider adopting a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for approving payment, accounting, reporting and complying with the ACH policy;

May 16, 2005

ACH Arrangements (continued)

- A statement that this individual is required to submit documentation as follows:
 - Describe the goods or services purchased,
 - The cost,
 - Date of payment, and
 - The department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

Plante & Moran can provide a sample policy that you may wish to use as a guide.

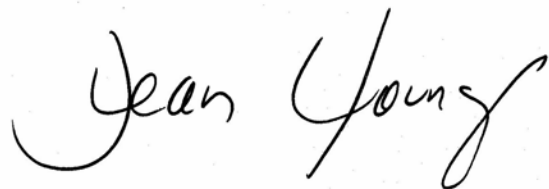
Again, we would like to thank all of the Authority's personnel for their cooperation and patience extended to our staff during the audit process. We would be happy to answer any questions you have regarding the financial statements or to assist you with any other items.

Very truly yours,

PLANTE & MORAN, PLLC



Mary J. Schafer, CPA
Partner



Jean M. Young, CPA
Associate